

Message Text

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ACTION AF-18

INFO OCT-01 ADP-00 AID-20 IGA-02 OPIC-12 COME-00 TRSE-00

SCEM-05 EB-11 INT-08 CIAE-00 DODE-00 PM-09 H-02

INR-09 L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-14

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FM AMEMBASSY KAMPALA

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E. O. 11652: N/A

TAGS: ETRD, UG, US

SUBJECT: GOU DISCRIMINATION AGAINST US OIL COMPANIES

REFS: KAMPALA 1034, STATE 49724

1. EMBECONOFF ATTENDED MEETING BETWEEN ACTING MINFIN GERIA AND ESSO REP MORRIS ON MARCH 19. CONVERSATION WAS TOTALLY ONE SIDED, EMBOFF AND GERIA LISTENING TO ONE- HOUR PITCH BY MORRIS.
2. MORRIS GEARED PITCH TO ECONOMIC REASONS WHY GOU SHOULDN' T GO ALONG WITH MONOPOLY ON GOU BUSINESS FOR SHELL, AGIP AND TOTAL. MADE GENERAL STATEMENT THAT THESE THREE COMPANIES SHODDILY RUN AND GOU SHOULD NOT BE ASKED TO SUBSIDIZE UNECONOMIC OPERATIONS. GENERAL THRUST WAS THAT GOU STOOD TO LOSE MORE BY SUCH AN ARRANGEMENT THAN THEY WOULD GAIN. POINTS RAISED BY MORRIS LISTED BELOW.
 - A) SHELL HAS 7 EXPATRIATES HERE ALL EARNING FAT SALARIES AND DRAWING BOARD OF DIRECTOR' S FEES TO BOOT. ESSO HAS ONE EXPAT ON STAFF, DRAWING LOWER SALARY AND TOKEN 5 SHILLINGS PER YEAR BOARD MEMBER FEE. ESSO ALSO HAS CONSIDERABLY FEWER EMPLOYEES IN RELATION TO SIZE THAN SHELL.

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B) ESSO PAYS OVER \$500,000 IN TAXES TO GOU EACH YEAR. LOSS OF GOU BUSINESS WOULD CUT THIS TO UNDER \$300,000. CONSIDERING POOR WAY SHELL AND OTHERS RUN THEIR BUSINESSES, DOUBTFUL THAT GOU WOULD MAKE THIS UP IN INCREASED DIVIDENDS OR PROFITS FROM THEIR SHARE OF SHELL, AGIP AND TOTAL.

C) LUBRICANTS USED BY CERTAIN INDUSTRIES HERE (GLASS AND STEEL) MADE HERE ONLY BY ESSO. CHANGEOVER TO OTHER LUBRICANTS REQUIRES FLUSHING AND OTHER EXPENSIVE PROCEDURES. ESTIMATED COST TO STEEL INDUSTRY, 1.5 MILLION SHILLINGS. COST OF DUPLICATING THESE LUBRICANTS ALSO PROHIBITIVE. AGIP AND TOTAL HAVE NO BLENDING FACILITIES HERE AND WOULD HAVE TO IMPORT OR BUY FROM ESSO ANYWAY.

D) MORRIS REPORTED SHELL REP ADMITTED IN INDUSTRY MEETING THAT ONLY WAY FOR THEM TO MAKE BETTER PROFITS WOULD BE TO INCREASE PRICES. WITH MONOPOLY ON GOU BUSINESS AND NO COMPETITION, SHELL AGIP AND TOTAL WOULD HAVE NO PROBLEM INCREASING PRICES. (GERIA SAT UP AND TOOK NOTICE OF THIS STATEMENT.)

E) MORRIS TOSSED IN FACT THAT US DOES NOT DISCRIMINATE AGAINST UGANDA IN ITS COFFEE PURCHASES. EMBOFF MELTED INTO CHAIR.

F) MORRIS POINTED OUT THAT SHELL, AGIP AND TOTAL WOULD HAVE TO BUY OR RENT EQUIPMENT FROM ESSO, CALTEX AND MOBIL IN ORDER TO MEET THEIR NEW COMMITMENTS. HE RAISED THE ISSUE OF CAPITAL OUTLAYS FOR THIS EQUIPMENT. (IN PRIVATE MORRIS SAID THEY WOULD " PUT IT TO THEM" WHEN IT COMES TO RENTAL OR SALES TERMS.)

G) MORRIS ENDED BY SAYING THAT THE GOU HAS PREROGATIVE TO DO WHAT IT CHOOSES BUT CAUTIONED THEM TO LOOK CAREFULLY AT ALL THE ECONOMIC FACTORS TO DETERMINE WHETHER OR NOT THIS WOULD BE BEST COURSE OF ACTION. HE BROUGHT UP CASE OF ZAMBIA WHERE THIS WAS TRIED FOR 3 YEARS AND GOZ FOUND IT WAS COSTING MORE THAN THEY WERE GETTING OUT OF DEAL. THEY OPENED UP EVERYTHING TO COMPETITIVE BIDDING WHEN THE FACTS BECAME CLEAR. ALSO RAISED TANZANIA AS EXAMPLE WHERE GOVERNMENT HAS TRIED SIMILAR MOVE AND IS FINDING OUT IT DOESN' T WORK.

3. GERIA' S ONLY COMMENT ON WHOLE DISCUSSION WAS TO ASK MORRIS FOR LIST OF ESSO CONTRACTS WITH GOU INCLUDING SALES VOLUME AND SELLING PRICES. MORRIS AGREED TO SUPPLY THE INFO.

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4. GERIA' S LACK OF RESPONSE TO PRESENTATION PROBABLY RESULTS
FROM FACT HE WAS HEARING OTHER SIDE OF STORY FOR FIRST TIME
AND MAY HAVE BEEN OVERWHELMED BY FACTS PRESENTED BY MORRIS.
ALSO QUITE OBVIOUS HE A LITTLE TAKEN ABACK BY MORRIS' UNDISGUISED
CONTEMPT FOR WAY OTHER COMPANIES (SHELL IN PARTICULAR) ARE RUN.
KEELEY

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